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FREE SILVER AND WAGES.

WHAT his income is, and what his income will buy, are interesting questions for each individual. The answers express the net result of his business conduct, of his economic action, and measure his command over the material sources of happiness. What wages are, and what wages will buy, are life questions for the mass of the community. The answers enable us to measure social well-being, the standard of living, the real prosperity of a nation. The "condition of the laboring class" has become the absorbing thought of modern civilization, and the greatest living English economist declares that "the question whether poverty is necessary gives its highest interest to economics." In like manner a leading German economist lays down the axiom that to secure a comfortable minimum of subsistence for every individual is the fundamental principle of economic politics. Economists have welcomed and applauded trades unions, coöperation and profit-sharing as means for bettering the condition of the laborer, and have given a sympathetic hearing to the wildest socialistic schemes for the regeneration of society with the same end in view. Public opinion has not been far behind, and seems ready to sanction by legislation almost any plan that claims to benefit labor.

The proposal to begin the free coinage of silver at the ratio of 16 to 1 must be tested largely by the effect it is likely to have on the working man. This is acknowledged alike by friends and opponents of the measure. The silver men declare that free coinage is necessary in order to restore the prices of commodities, whose present low level is due to the scarcity of gold, and thus to stimulate business; and that from such stimulation of business will result a greater demand for labor, full employment and higher wages. The gold-money men predict that the free coinage of silver will cause a financial panic, destruction of credit, stoppage of industry, lack of employment, and

in the long run increased cost of living, which will be followed only gradually by a corresponding rise in wages. It seems as if economic experience should be able to teach us with reasonable certainty which of these results will follow, and on which side of the present controversy lies the material interest of every laboring man and of every man on a fixed salary. To determine so much may not be an answer to the whole question, but from both the individual and the social points of view it is certainly a very important part of the answer. I venture, then, to assert that political economy teaches beyond a doubt that both the indirect and the direct consequences of the free coinage of silver would be disastrous to labor.

It is easy to foresee what the indirect consequences would be, but it is not easy to measure them. It is impossible to believe that the probability of free coinage at the rate of 16 to 1, when silver is worth only 30 to 1, would not bring on a financial panic, for we know that much smaller causes have in the past sufficed to do so. Credit would certainly be destroyed or greatly curtailed. Foreign investments would be withdrawn or withheld, and all business crippled for lack of funds. The usual result of such a panic is lack of employment for the laborer, and an attempt on the part of the employer to economize in his labor bill. It is said that the panic would be temporary, and that business would be resumed on a sounder basis. But even if this were true, labor would come back to its employment poor, enfeebled and suffering from the transition. Karl Marx, the socialist, was accustomed to describe the commercial crisis due to the fluctuations of industry as one of the worst evils from which the working classes suffer under the capitalistic method of production. It creates, according to his opinion, a "reserve army of the proletariat," eager to accept any employment, completely at the mercy of the capitalists, and the worst enemy of organized labor. A commercial crisis brought on by partisan legislation would be equally disastrous. In fact, it would be worse, for it would introduce into business operations a new and entirely incalculable factor, namely, the possibility of direct tampering with the standard of value. It

is probable, moreover, that many years would elapse before confidence would be restored ; for nothing is so disastrous to a nation as the loss of its reputation for commercial stability and integrity.

It is much easier to predict and to measure the direct consequences of the free coinage of silver on the laborer in the long run. They consist of the effects on wages and on what wages will buy. The thesis is that such coinage would raise prices, and that prices would go up faster than wages, thus causing the laborer to suffer from the increased cost of living.

The first proposition to be proved is that prices would go up. It seems scarcely necessary to show this, for the very object of free coinage is to restore prices. This is what is promised to the farmer, the debtor and the business man. The whole basis of scientific international bimetallism, if it have any scientific basis, is the contention that a period of decreasing prices is discouraging to all business, and that the restoration of silver would stop the fall and possibly lead to a gradual inflation which would be favorable to business.

Free coinage of silver would lead to higher prices, not so much by the inflation of the currency as by the reduction of the standard to the bullion value of the $412\frac{1}{2}$ -grain silver dollar. If that value expressed in gold remained at fifty-three cents, prices would be almost doubled. Most of the members of the Populistic party seem to expect this and to rejoice in the fact that prices would rise and debts would be easier to pay. One notable voice, however, is heard declaring that by free coinage the value of silver would be increased and that of gold diminished, so that the old ratio would be restored. If this were really true, I doubt if the free coinage of silver would have any further attraction for the Populist. It is, however, utterly absurd to believe that free coinage would restore silver from 69 cents an ounce to \$1.29, or would reduce the value of gold so that the ratio would again be 16 to 1.

In the first place, look at the supply of silver. Even with a constantly decreasing price the supply increases every year, as shown by the following table :

	FINE OUNCES.	PRICE PER OUNCE.
1886	93,276,000	\$0.99
1887	96,124,000	0.97
1888	108,827,000	0.93
1889	120,214,000	0.93
1890	126,095,000	1.04
1891	137,171,000	0.98
1892	152,940,000	0.87
1893	161,162,000	0.78
1894	166,601,000	0.63

If the supply thus increases notwithstanding the decrease in price, what would the supply be with an increase in price? The object of the silver-mine owners (the only persons who would gain) in securing free coinage is to make profitable the present unprofitable mines. That would increase the supply of silver; and while the price might temporarily rise enough to make the fortunes of these men, this very increase would stimulate production so that the supply would soon again be excessive.

In the second place, would the demand for silver increase? The only demand that could possibly increase would be that for silver for currency, and the only part of the currency that could be replaced would be the gold. Paper money, bank-notes and credit instruments would still continue to discharge the functions of money as at present. The American people, however, want no more silver to carry in their pockets. Retail trade needs no more fractional silver (which, at any rate, would not be freely coined) and gets on very well with paper dollars. It is said that the gold would be replaced by silver. But where is the gold? It is not in the pockets of the people. The gold reserve of the treasury would disappear and might be replaced by silver for the redemption of the greenbacks, but that would create only a very small demand. The banks might hold their legal reserves in either silver or greenbacks, but would probably prefer gold, which would be available for foreign transactions as well as for domestic contracts payable in gold. The total demand for money would be no greater than now; and in the

resulting paralysis of business enterprise it would probably be even less.

In the third place, would the demand for gold be less? It would be lessened only to the extent just indicated; while the hoarding of gold by timid investors and the increased demand for it to pay interest on gold bonds, on mortgages payable in gold and on other gold contracts would probably absorb all the gold set free.¹ Even if prices rose in gold-standard countries, that would only mean that we should have to pay more for our imports.

Free coinage would, in short, mean the substitution of the silver dollar of $412\frac{1}{2}$ grains for the gold dollar as the standard for all domestic prices. Its value would remain about the same, fifty-three per cent of the present standard gold dollar. Prices would naturally rise something less than one hundred per cent, and gold would be at a premium. Our imports (\$797,000,000 per annum) would be paid for in gold, but when re-sold to the consumer for silver, the prices would be doubled to pay for the premium and the risk.

The second proposition to be proved is that when prices rise wages also rise, but more slowly, so that for the time being the purchasing power of wages is less and the condition of the wage-earner is worse. This is one of the least debatable propositions of political economy. It rests upon undisputed historical evidence, and is confirmed by common sense or what we know of the nature of man. Upon this point inductive and deductive economists agree perfectly.

First of all, we have the experience of the Civil War, when prices rose on account of the irredeemable paper currency. What was the effect on the condition of the laboring class? Conclusive evidence is afforded by the report of the Senate Committee on Prices, made after an investigation in 1891. Starting with the prices of 1860 as a basis, that committee made a careful calculation of the rise of prices and of the rise in wages. The result is seen in the following table:

¹ H. W. Farnam, "The Bimetallic Theory," *Yale Review*, August, 1894, p. 217.

TABLE OF WAGES, PRICES AND PURCHASING POWER IN THE
UNITED STATES, 1860-1891.¹

YEAR.	CURRENCY WAGES.	CURRENCY PRICES.	PURCHASING POWER.	YEAR.	CURRENCY WAGES.	CURRENCY PRICES.	PURCHASING POWER.
1860	100.0	100.0	100.0	1876	151.4	115.5	131.0
1861	100.7	95.9	105.0	1877	143.8	109.4	131.4
1862	103.7	102.8	100.8	1878	140.9	103.1	136.6
1863	118.8	122.1	97.3	1879	139.4	96.6	144.3
1864	134.0	149.4	89.7	1880	143.0	103.4	137.6
1865	148.6	190.7	77.9	1881	150.7	105.8	142.4
1866	155.6	160.2	97.1	1882	152.9	106.3	143.8
1867	164.0	145.2	112.9	1883	159.2	104.5	152.3
1868	164.9	150.7	109.4	1884	155.1	101.8	152.3
1869	167.4	135.9	123.2	1885	155.9	95.4	163.4
1870	167.1	130.4	128.1	1886	155.8	95.5	163.2
1871	166.4	124.8	133.3	1887	156.6	96.2	162.7
1872	167.1	122.2	136.7	1888	157.9	97.4	162.1
1873	166.1	119.9	138.5	1889	162.9	99.0	164.5
1874	162.5	120.5	134.8	1890	168.2	95.7	175.7
1875	158.0	119.8	131.0	1891	168.6	96.2	175.4

It will be observed that after 1862 prices advanced very rapidly, reaching a maximum in 1865, the period of greatest inflation. Wages also advanced, but more slowly, so that their purchasing power decreased, reaching a minimum in 1865, when, although wages had increased nearly 50% in money, their purchasing power was only 78% of what it had been in 1860. It was not until 1866-67 that the laborer regained the position he had in 1860. After studying these facts, can any one doubt that a period of rising prices is unfavorable to the wage-earner?

It is notorious that any average of either prices or wages is very difficult to make, and that no computation of this sort can pretend to mathematical accuracy. It is impossible to average the prices of all commodities, and, furthermore, commodities are of such varying importance that a simple average would mean little. If, however, we average in several different ways with the same general result, we may conclude that a movement is fairly measured. This is the method of the Aldrich Report. Taking the simple average, the prices in 1891 are represented

¹ The Aldrich Senate Report, Part I, pp. 13, 93.

by 92.2; taking commodities according to their importance in the consumption of the working man, regarding certain expenditures as uniform, the result is 96.2; and by another method it is 94.4. It is obvious, therefore, that the number in the table represents a very moderate estimate of the fall in prices. This statistical investigation proves beyond doubt that prices are at least no higher than in 1860.

The statistics of wages contained in the Aldrich Report have been subjected to a most searching criticism by Mr. A. S. Bowley, in a paper read before the British Association in September, 1895.¹ Mr. Bowley is a perfectly honest and impartial critic, whom no one can accuse of leniency in treating American statistics. He tested the figures in four different ways, with the result that, taking wages in 1860 as 100, wages in 1891 were respectively 155, 160, 161 and 167. As the figure given in the Report is 168.6, the difference is trifling. So far as the trustworthiness of the statistics is concerned, we can safely say that rising prices are disastrous to the working man, because wages rise more slowly than the cost of living. We shall soon return to the second part of the table, which is equally remarkable in showing that the decline in prices since 1865 has been accompanied by comparative stability in wages.

Economists have long been familiar with the law that wages rise more slowly than prices, and they have many illustrations of it. A particularly striking case is found in the decline in the condition of the working classes in England during the 16th century, which was caused in part by the debasement of the currency.² Henry VIII commenced the process by putting in more alloy and coining the pound into a greater number of shillings. Edward VI did the same thing. Elizabeth restored the old standard in 1560, but coined the pound of silver into 60 shillings instead of 45. The effect of this debasement, averaging 60%, was to raise prices. Probably the influx of silver from America would of itself have made prices rise, but slowly and moderately. As it was, the rise was rapid. When

¹ *The Economic Journal*, September, 1895, p. 369.

² Rogers, *Six Centuries of Work and Wages in England*, pp. 342 ff.

Elizabeth reformed the currency the rates had become fixed.

Meat was 3 times the old rates, corn $2\frac{1}{2}$, and dairy produce $2\frac{1}{2}$. But the rise in wages was only a little more than $1\frac{1}{2}$ times. In other words, where the wages of a labourer rose from 6d. to 9d. a day, he had to pay 3s. for meat, 2s. 5d. for bread, and 2s. 6d. for butter or cheese where he paid 1s. before. . . . The same fact discloses itself in regard to those articles where labour gives them their chief value. The price of fish, of prepared fuel and of building material rose but little above that of labour. The producer of animal food, grain and other agricultural necessaries commanded a better market than the dealer in any other article of value did, while labour, and those products the value of which is principally derived from the outlay of labour, partook in the least degree in the rise of prices.

Even if base money had not been issued, the general rise of prices would, according to Rogers, have injured the laborer.

Between the middle of Elizabeth's reign and the breaking out of the Parliamentary war, a period of 60 years, general prices more than doubled, while a very miserable increase is effected in the wages of labour, certainly not more than 20%.¹

It is perfectly obvious why prices rise faster than wages. The seller of goods can mark up prices with comparative ease, and he is generally foresighted enough to do it the moment he apprehends that the money he is to receive will be of decreasing purchasing power. He is eager to reap any advantage that may accrue from selling goods bought at the old prices, and he is pretty sure to advance prices far enough to cover any risk of further depreciation. The working man, on the other hand, is obliged to wrest an advance from the employer, who is unwilling to increase his labor bill, even if he has advanced prices. Moreover, it requires time for the workman to appreciate all that the increased cost of living means to him, and to bring about a union of forces sufficiently powerful to make a fight. In the long run, wages will doubtless go up, but in the interval the laborer suffers. It is inconceivable that the laborer should knowingly put himself into such a position.

On the other hand, when prices are going down the working man has the advantage. The employer will not at once cut

¹ For further illustrations, see Rogers, pp. 405, 410, 428, 429 and 500.

down wages, but will economize in other directions. A reduction in wages may cause a strike, disorganization of his labor force, loss of business connections and inability to take advantage of any turn in the tide. It is notorious that in times of depression many an employer continues to run his business, even at a loss, partly from a desire to retain his market, partly from consideration for his men. When prices are falling, wages usually follow more slowly; but if the fall in prices is due to improved methods of production, they need not fall at all. The employer may be obliged to charge to his loss account a part of his capital invested in old machinery, but the demand for labor will be the same. When prices rise or fall, the party adverse to a change in wages has the advantage: with rising prices, it is the employer; with falling prices, it is the employee.

This brings us to two further questions of great importance to the laborer, namely: Has the steady fall of prices since 1873 been to his advantage or disadvantage? Has this fall been due to scarcity of gold or to improved methods of production? If the fall has been due to scarcity of gold, wages will probably fall, although more slowly than prices or the cost of living; while if it has been due to improvements in production, wages may remain stationary or increase while cost of living is decreasing. These are important questions, but I think political economy is now in a position to answer them.

An examination of the last table shows that prices have decreased since 1873, while wages have increased since 1879. It appears, therefore, that in a period of declining prices the position of the laborer has improved. This fact, moreover, is not true of the United States alone. It can be shown on the authority of many economists and statisticians that it is generally true. Thus, Mr. A. L. Bowley, the latest authority in England on wages, after an elaborate investigation of all the accessible data, came to the conclusion that real wages (purchasing power) rose about 20% between 1860 and 1871-4, the period of the maximum; and that after 1880 money wages rose continuously (with a check in 1886) while real wages rose still

more rapidly. From 1860 to 1891 the rise, taking the same trades as those in the Aldrich Report, was 70%; and including all trades the rise in real wages was 90%.¹ Again, a most elaborate study of the effects of the low prices since 1873 has been made by M. Hector Denis, and he comes to the conclusion that both wages and the standard of life of the laboring class have risen since 1873.² Finally, General Walker, the leading bimetallist of America, admits that since 1873 the laborer has received as large a share of the product of industry as he then had, or even more; although he contends that this share has not been as large as it would have been if silver had not been demonetized in 1873.³ But it is certainly something to have gained in a period of falling prices, and it seems chimerical to advise the laborer to exchange this certainty for the chance of recovering in wages the increased cost of living which advancing prices would bring. It is doubtful, too, whether the speculative boom given to business by inflated prices really causes prosperity, for it is sure to be followed by a period of depression, disastrous to employers and workmen alike.⁴

It is only fair to say that the international bimetallists see clearly enough that free coinage of silver by the United States would lead to a financial panic, to silver monometallism and to still further delay in securing international bimetallism. General Walker, indeed, regards both the Bland-Allison Act and the Sherman Act as unwise, because they relieved the nations of Europe from responsibility for silver.⁵ He is also reported to have denounced the declaration of the Democratic convention at Chicago in favor of free coinage as a stupendous blunder. M. Walras, the distinguished Swiss bimetallist, whom Walker quotes with approval as saying that the continued appreciation

¹ *The Economic Journal*, September, 1895, p. 382; *Journal of the Statistical Society*, June, 1895.

² *La Dépression Économique et Sociale et l'Histoire des Prix*, 1895.

³ Walker, *International Bimetallism*, 1896.

⁴ See article by J. B. Clark, "The Gold Standard in Recent Theory," *POLITICAL SCIENCE QUARTERLY*, September, 1895, p. 402.

⁵ *International Bimetallism*, pp. 187, 218.

of gold means a permanent industrial crisis, says also, in the same letter, that free coinage of silver at the old ratio would bring about a still more disastrous cataclysm, sacrificing the creditor, capitalist and *wage-earner* for the benefit of the debtor and manufacturer. Walker, Denis and Walras are sincere bimetallists, and believe that falling prices have a discouraging effect on industry which makes itself felt on the laborer. They all confess, however, that the laborer is better off than in 1873. Not one of them would advocate any such sweeping change as the free coinage of silver by the United States alone.

Two causes are given for the present low prices. One is the scarcity of gold or the increased demand for gold owing to the demonetization of silver; the second is the improvement in methods of production and transportation. The first is the thesis of the bimetallists, and is exhaustively presented by General Walker in his new book; the second, the thesis of the monometallists, is represented by Mr. David A. Wells's book on *Recent Economic Changes*. The extraordinary coincidence that the fall in prices, the demonetization of silver, the increase in the production of silver and the great improvements in methods of production have all occurred during the last twenty-five years, has made the problem of cause and effect well-nigh insoluble. In any case the fall of prices has benefited the laboring class. If, however, it is due to improved methods of production and not to scarcity of gold, the position of the laboring man is still more favorable. This alternative has also very important bearings upon the prospect of business revival and upon the question of justice between debtor and creditor. It affects the first because, if the fall in prices is due to improved methods of production, we need not fear the "permanent industrial crisis" so freely predicted by the bimetallists. It affects the second because, if labor is more productive than formerly, there is no injustice in the debtor returning to the creditor a larger amount of commodities than he received.¹

¹ See, on these points, J. B. Clark, "Free Coinage and Prosperity," POLITICAL SCIENCE QUARTERLY, June, 1896, p. 248.

It is impossible to give here even a *resume* of the discussion concerning the cause of the present low prices. As I have intimated, the fortuitous coincidence of the demonetization of silver and the fall in prices, together with the stationary or decreasing production of gold from 1871 to 1887, gave great plausibility to the arguments of the bimetallists. The theory that low prices were due to scarcity of money owing to the demonetization of silver thus appealed to many minds. The remonetization of silver, furthermore, appealed to many interests. In it the silver-mine owner saw a market for his increasing product; the manufacturer saw the end of dull times and the beginning of an era of higher prices; while the debtor, led to believe that he was suffering from "injustice," saw the opportunity to lighten his debt by seeking legislative action on the plea that he was only undoing what had been done by legislation and restoring the *status quo ante*. Finally, many economists entangled in a quantitative theory of money which had never been thoroughly thought out yielded to what seemed the logic of the facts. Down to 1887 the ratio between silver and gold had increased only to 18.57 to 1, so that a restoration of bimetallism by international agreement seemed possible, and many eminent converts were made.

At present the tide seems to be turning. The continued fall of silver down to 32 to 1 makes the possibility of tying the two metals together seem problematical. It also weakens the contention that the cheapness of silver is due to its demonetization, for the cause seems inadequate to the effect. Still further, all that has been done for silver by the Bland and Sherman Acts has not arrested its fall; for while the supply of money has constantly increased, prices have continued to decrease. Finally, since 1890 gold has rapidly increased, and still prices go down. In view of all these facts, there is an increasing skepticism in regard to the theory that the present low prices are due to an actual scarcity of gold.

Many bimetallists, moreover, admit that at least part of the fall in prices has been due to improved methods of production.¹

¹ Walker, *International Bimetallism*, p. 265.

M. Denis, in the book already cited, after careful review of both the alleged causes, concludes that both have been active, but declares that it is impossible to measure the exact influence of each. After quoting Marshall to the effect that in a decline of prices reckoned at 30% about 12% has been due to the scarcity of gold, he himself favors the view that about one-half (15%) has been due to that cause.¹ The evil of a gradual contraction of 15% in twenty-five years is, however, trifling in comparison with the harm sure to result from the sudden inflation of prices by the free coinage of silver.²

Recent events have still further weakened the contention that the low prices are due to a scarcity of gold. Professor Lexis, whom General Walker has termed the "first economic statistician in the world," has shown that the money supply of the world has greatly increased during the period of falling prices. Germany had at the beginning of her currency reform 1700 million marks in specie; but now, while her population has increased only from 40 to 50 millions, she has 3380 million marks. France, with a stationary population, has since 1873 increased her specie in circulation by 1500 million francs. England, although her highly developed credit system makes her need of currency less than that of Continental states, from 1873 to 1892 imported 760 million marks more gold than she exported. Of the United States Lexis says:

The United States increased its money supply from 1873 to 1892 to a degree such as has never happened in any country. The greenbacks remained at 347 million dollars as legal tender; the supply of gold increased by 520 million dollars; 416 million Bland dollars were coined, and 152 million dollars of treasury notes issued in purchase of silver under the Sherman Act. There was, therefore, an increase of 4626 million marks in specie money, or notes covered by specie, besides 250 million marks in fractional currency.³

In a more recent article⁴ Professor Lexis declares roundly

¹ *La Depression Économique*, p. 389.

² Compare Clark, "Free Coinage and Prosperity," *POLITICAL SCIENCE QUARTERLY*, June, 1896, p. 258.

³ Lexis, "Die Deutsche Silbercommission," in Conrad's *Jahrbücher für Nationalökonomie und Statistik*, November, 1894, p. 728.

⁴ *Handwörterbuch der Staatswissenschaften*, Supplement I, p. 864.

that the claim that low prices are due to scarcity of gold must now be given up, since it is contradicted by all the facts. He shows that the supply of gold has increased rapidly since 1890, while prices have continued to sink. Even the momentary rise in prices in 1895 was accompanied by accumulation of gold in the banks of England and Germany and by exportation of gold by the United States, so that it could not have been due to increased circulation. Still further, during this period the prices of some articles have risen and others have fallen.

It seems, therefore, questionable, to say the least, to attribute the fall in prices to scarcity of gold. The gain of the laborer is a real one, due to improvements in production which he has shared with the remainder of the community.

But if the laborer, who has gained by decreasing prices, would lose enormously by the debasement of the currency through free coinage of silver, would not other classes gain? The period of falling prices has been hard on the landlord, the manufacturer and the capitalist. Great as these interests are, however, they are not likely to receive consideration in comparison with the interests of the great mass of the community. Besides, whatever may be said in favor of slowly expanding prices as a stimulus to business, a period of rapid inflation does not benefit honest industry. It puts a premium on speculation, but makes all business uncertain. The panic following free coinage would bring ruin, from which it would take many years for the business man to recover. The farmer would find the increased price for his wheat offset by the higher price of other things and by the reduction in the consumptive power of the community. Even the debtor class, if we could separate them from the others, would suffer from the foreclosure of mortgages, the diminution of incomes and the increase in rates of interest. Experience would soon demonstrate to all classes alike that prosperity is far less dependent on the standard of value than on integrity in business and a high standard of national honor.

RICHMOND MAYO-SMITH.